ARIZONA
OFFICE OF TOURISM

UNITED KINGDOM

MARKET UPDATE 2018

UK TOURISM INDUSTRY: OUR OPERATING ENVIRONMENT

Travel Frequently	High Spending
Booking Early	New Experiences

The current population of the United Kingdom is 66 million, a 0.5% growth from 2017 and therefore an increasing market demand for holidays. The median age in the United Kingdom is 40.3 years.

There were 70.8 million visits overseas by UK residents in 2016 (the highest in 10 years). In 2017, ABTA research showed growth in both the number of Britons taking a holiday and in the average number of holidays taken per person.

Overall, 87% of Britons said they took a holiday either at home or abroad in the 12 months to August 2017, which was an increase on the previous year (86%). This represents the largest proportion of Britons taking a holiday since 2011. The average number of holidays per person has also grown reaching 3.8 per person, an increase of 0.4 on the previous year. This is the highest number of holidays per person in the last five years and almost equal to the numbers seen in 2011.

ABTA research shows a notable increase in people planning to spend more on their holidays in 2018. Over three in ten people (31%) plan to spend more, compared to 24% who stated this in 2016, with only 14% of people planning to spend less. Overall, UK residents spent £43.8 billion on overseas visits in 2017, 12% up on the previous year.

The first half of 2018 reflected the growing trend for early booking, with people keen to secure their preferred resort or destination.

British holidaymakers are keen to experience new things with over a quarter (27%) planning to visit a country they have never been to before. Almost a third (32%) are expecting to visit a new resort or city.

Source: The eDreams ODIGEO European Traveller Insights 2017 Report & REDmarke Research UK Outbound Monitor April 2018 & ABTA 2018 Report

UK TRAVEL TO THE U.S.

UK residents made an estimated 2,189,033 holiday visits to the U.S. during 2017. North America's share of total UK outbound visits fell by 0.3 percentage points during 2017 to 5.5%. UK residents made a total of 3.94 million visits (all trip purposes) to North America in 2017.

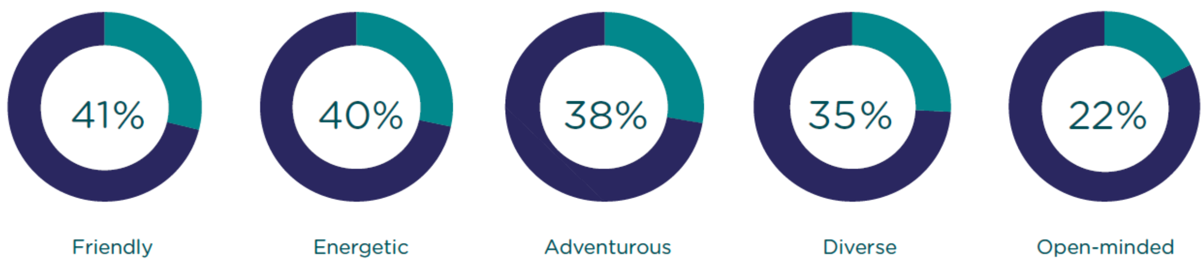
Developments in UK and EU negotiations viewed as broadly positive for Britain and growing expectations that the Bank of England could soon raise interest rates have helped the pound rally this year to its highest since the June 2016 vote to leave the European Union. Sterling is up 4% versus the dollar this quarter, its best performance since mid-2015. Against the euro it has risen 1.4% since January, heading for the best quarter since 2016. *Source: Routers, 2018.*

Travel sales are still holding up despite the uncertainty of Brexit. Data from Barclaycard has shown that overall spending in travel agencies was up 13.1% in May 2018 compared with the same month a year ago. Online travel agencies saw a 17.5% rise year-on-year in May, while on the high street, in-store sales were up 7.6%. Overall, travel remains important to the UK consumer.

The UK ranks fifth in terms of annual visitor spending from international markets, with 16.1 billion USD spent per year by Brits. The UK also rank as the third highest international market in terms of arrivals to the U.S. with 4.57 million annual visitors, behind Canada and Mexico.

The UK market has also seen a rise in length of stay in the U.S., with average length of stay in 2017 totaling 21.3 nights *Source: Arizona Office of Tourism Research Division.* Whilst in the states, leading popular activities for UK visitors are shopping, followed by sightseeing, fine dining, small towns and historical locations.

See below the top 5 strongest impressions Britons have on the USA;



In terms of response to when UK visitors are next likely to visit the U.S., 23% selected in one to two years, with 21% selecting two to five years and 20% selecting six to twelve months.

The Office for National Statistics (ONS) has released a demographic breakdown of United Kingdom leisure visitors to the U.S.:

AGE	VISITORS
0-15	151,000
16-24	286,000
25-34	756,000
35 -44	776,000
45-54	779,000
55-64	432,000
65+	313,000

Source: Market Profiles: Brand USA 2017 Research Study

How are Brits booking holidays to the U.S.?

Each age demographic books differently

25
- Under-25 travelers are most likely to book air travel and accommodations separately, or separately from the same provider, to attain the lowest-priced airfare

34
- Travelers, ages 25 to 34, are most likely to research travel plans using a mobile device. A quarter of them book holidays using their devices

44
- Over a quarter (28 percent) of travelers, 35 to 44, are booking their holidays through high street travel agents, suggesting they benefit from face-to-face contact

55
- Travelers over 55 are more likely to book their holidays as packages by phoning travel agents whom they trust for the best price

TARGET MARKETS

Who is traveling?

- Over 65s took 2.0 holidays abroad per person in 2017. This group are also the most likely to go abroad for a week or more
- There are regional variations in the number of holidays taken per person. People in the North West took the most holidays per person
- As in previous years, people are most likely to go on holiday with their partner (50%) or immediate family (40%). Group holidays are a relatively popular option, with extended family groups and adult only groups each being taken by around one in five people
- The number of people holidaying alone also remains steady. Solo travel is most popular with the over 65s, 18% of whom have travelled alone in the past 12 months; 81% stating they did so for the opportunity to be able to do what they want

Source: National Travel & Tourism Office

CURRENT DIRECT FLIGHT ROUTES FROM THE UK

Operator	Weekly flights	Airport(s)
British Airways	7 (plus an additional 3 flights through to October 2018)	London Heathrow

British Airways currently operates its daily nonstop flight arriving in Phoenix at around 3.00pm and departing for London at around 7.30pm. The airline also offers a second flight three times a week on Tuesdays, Fridays, and Sundays which will be available through to October 2018.

BA delivered an estimated 1.6% more passengers to Phoenix during YTD June 2018. BA plans to increase capacity by 16.8% in 2018 according to their latest filings with OAG. A 16.8% increase in capacity would lead to a 15.2% increase in direct arrivals during 2018 if BA can maintain 2017 load factors.

Source: REDmarke Research, 2018

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UK KEY ECONOMIC INDICATORS

2018 UK economic outlook

The Spring Statement as delivered by Philip Hammond, Chancellor of the Exchequer, set out the UK Treasury's expectations for economic growth during the next five years. Growth in 2018 is expected to be 1.5%, 1.3% in 2019, 1.3% in 2020, 1.4% in 2021, and 1.5% in 2022. Post 2008 recession UK growth peaked at 3.1% in 2014. Consumer confidence improved by 1.1 points during March 2018 over March 2017.

In 2017, the UK saw 1.7% GDP growth, with 1.8% growth in consumer spending. In terms of forecast for 2018 and 2019, PwC project UK growth to remain modest at around 1.5% in 2018 and 1.6% in 2019. Consumer spending growth is expected to moderate to around 1% in 2018 but may pick up slightly next year as real wages recover.

Projections for wages in the UK were 0.1% more positive in May 2018; wages would now increase slightly more than inflation during 2018.

Inflation eased a little from 2.7% down to 2.5% during February 2018. Prices for airfares however, were still significantly higher at an increase of 7.5%. The cost of holiday trips increased by 2.2%, a slightly lower rate than inflation.

Source: UK Outbound Monitor – RedMarke Research

GDP

- UK GDP is forecast to grow by 1.4% in 2018
    - After positive growth on average during Q4 2017 and Q1 2018, the pound dropped during May 2018. The main reason for the drop was the UK ONS confirming sluggish GDP growth during the first quarter of 2018. Despite the fall, recent economic data from the UK shows signs of a recovery. Long-term forecasts for the pound show it reaching 1.407 by May 2019 and 1.432 by May 2020. *Source: REDmarke Research, 2018*

Employment

- The unemployment rate in the UK stood at 4.4%, as of June 2017. This rate was down from 4.9% for a year earlier and the lowest since 1975. Source: *Office for National Statistics, August 2017*

Consumer spending

- UK consumer spending is predicted to grow by 1.1% in 2018. *Source: PWC UK Economic Outlook November 2017.*

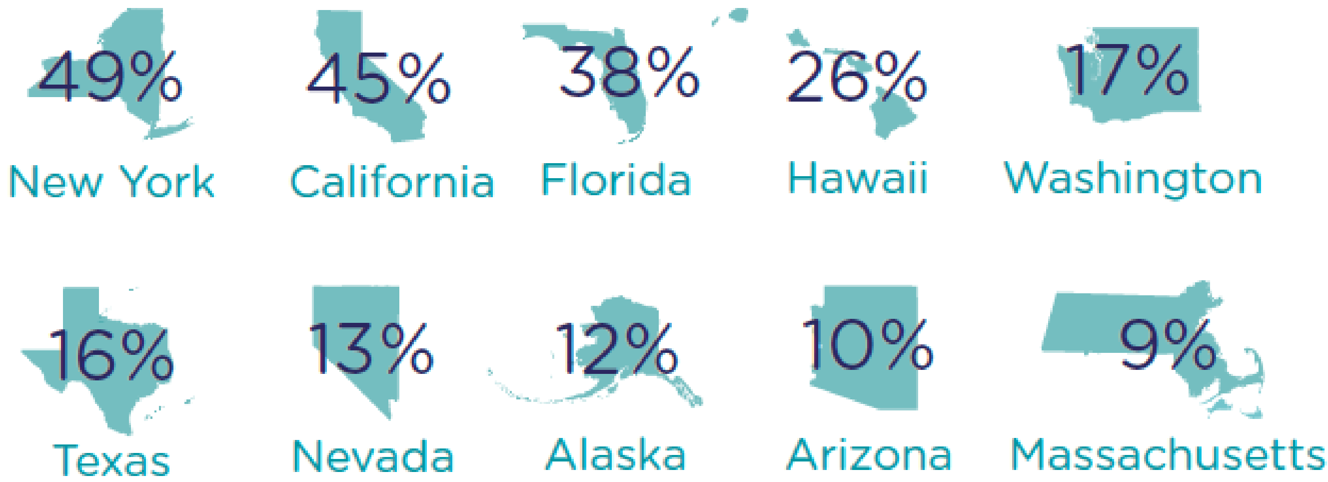
Brexit

- Kirsty Hayes, British ambassador to Portugal, states there are genuine grounds for optimism for the travel sector once the UK leaves the European Union. Speaking at the recent 2017 ABTA Travel Convention she states: "We are one of the fastest growing economies in the world and tourism is one of the main drivers; that's why it's so important"
- PWC Quote: "Brexit related uncertainty dampened commercial investment. Nonetheless, the UK economy has continued to register steady but modest growth".

COMPETITORS FOR THE UK MARKET

In terms of where Brits are travelling in the United States, see a breakdown below;

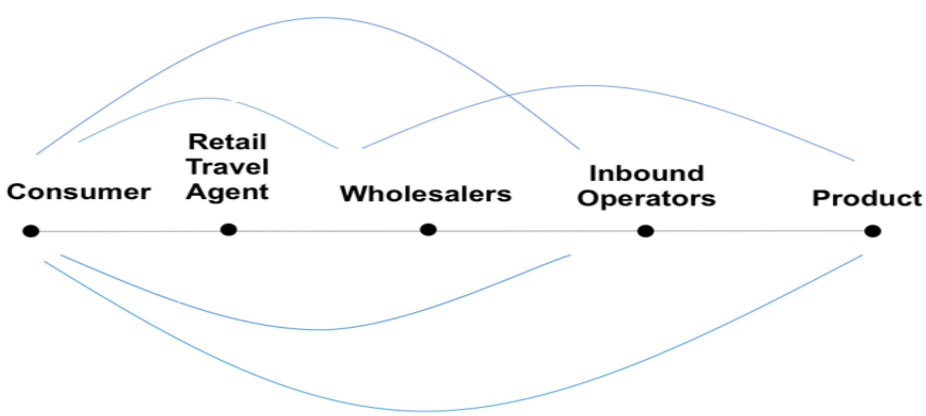
Destination Interest – Top 10 States



Source: Market Profiles: Brand USA 2017 Research Study

New York is the most popular destination closely followed by California and Florida. Arizona takes 9th place, with it's neighboring state coming in at 7th place.

TRAVEL TRADE LANDSCAPE



Tour operators in the UK have noted that the demand for multi- centre bookings – combining two or more destinations into a single package has doubled in recent years. More travellers want to see more of what a country or region has to offer. This also explains why Brits are increasing their length of stay when travelling to the U.S.

50 million digital UK users consume 239 billion digital minutes each month, with 3 out of 4 digital UK users consuming travel content. Furthermore, 2.4 billion minutes were spent on digital travel content in the UK which was a +44% increase year on year. More UK users now engage with travel content on mobile than desktop devices and OTAs were the most influential *online* resource in bookers' destination decisions. *Source: The British Traveller's Path to Purchase Report.*

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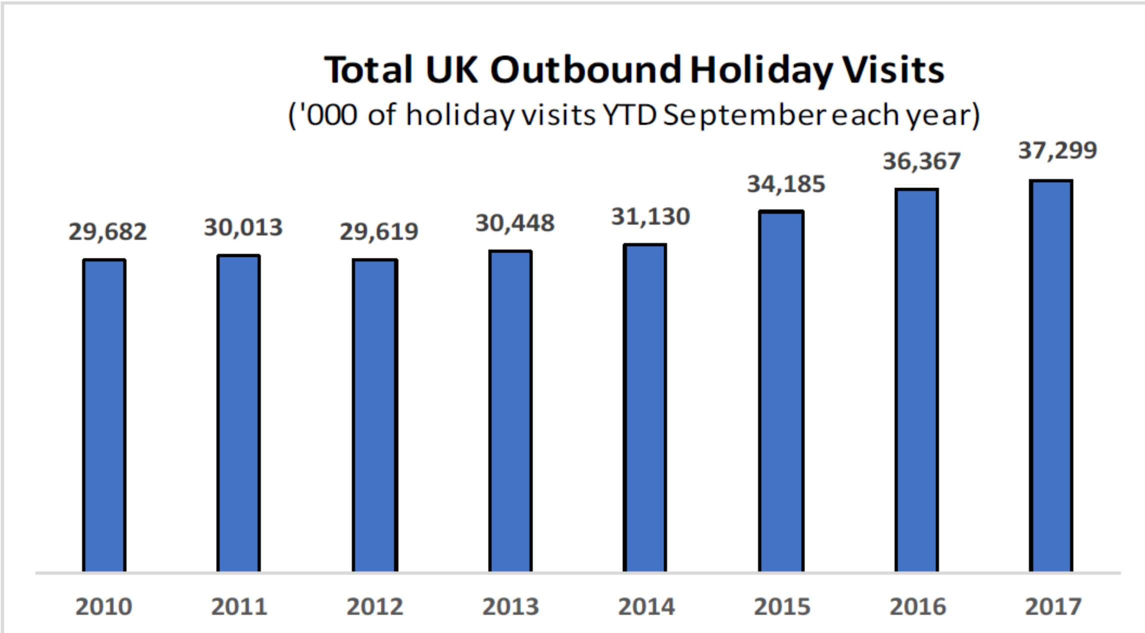
September: A Key Travel Period
UK holiday visits were up 2.6% through September 2017. UK residents made 37.3 million outbound holiday visits through YTD September 2017 which was 2.6% more outbound holiday visits then made in 2016 through September. Outbound holiday visits grew by 6.4% during the same nine months in 2017. See a graph below;



Sources: UK ONS and REDmarke Research

Other Primary Travel Periods from the UK market

- February: School break
- April: Easter
- Summer Holidays: Six weeks in July/August; school starts in early September
- October: School break
- Winter Holidays/Christmas

Source: Brand USA Market Information 2018

SWOT ANALYSIS

Strengths	Weaknesses
• Direct air access from the UK • UK consumer looking for more adventure and activity on holiday – not just a 'fly and flop' trip • No language barrier • Diversified tourism product offering - diverse culture and history, adventure, golf, cuisine etc. • UK tour operators in search of something different from the usual Route 66 and Deep South offerings	• High temperatures in the summer months in the Central and Southern areas of Arizona (also an opportunity if great value offers drive bookings) • Arizona is known for the Grand Canyon – need to educate UK consumers on other places of interest to increase length of stay • Heavy competition from other well-known U.S. destinations, such as Florida and Nevada • Overcrowding in some key attractions during the summer months such as at the Grand Canyon and Antelope Canyon
Opportunities	**Threats**
• Promote Arizona as a single state destination • Promote Arizona to 2nd time visitors to the U.S.; those that have already been to Las Vegas or New York etc. • Target golf tour operators • Promote ranch and city combinations • Promote less known destinations to avoid overcrowding in popular attractions	• Uncertainty in the exchange rate (GBP to USD) • In-market marketing spend from other U.S. destinations • Natural disasters

EMERGING MARKETS

HENRYs

High Earners Not Rich Yet: (HENRYs) are consumers who have a high and steady cash flow, but little accumulated wealth. Two-thirds of HENRYs prefer to seek out new and exciting authentic destinations rather than purchasing materialistic goods. HENRYs are also leading the way on the Millennials use of travel blogs, created by similar like-minded cultural explorers. Importantly however, if HENRYs are disappointed with a service, they will share their disappointing experience with other users online.

Digital Detox Seekers

The concept of a 'Digital Detox' holiday is gaining momentum as more and more people look to address the issue of time-poor, high-stress lifestyles. Successful careers demand more time spent on phones, tablets and devices and career-focused individuals are finding it detrimental to their health that even during 'vacation time' they're checking their phones and replying to emails. A digital detox encourages a short-term detachment from these electronic devices, to return to nature and take a mental break from the everyday aggravations of modern life. Arizona is the ideal destination for a digital detox, given its abundance of outdoor activities, back-to-nature experiences and wealth of luxury spas.

GottaGoSOLOs

GottaGoSolos represent a proportion of travelers who have families but take holidays without their partners or children present. This is a phenomenon that appears to be closely correlated to age. Almost three fourths of GottaGoSOLOs are Millennials, while a third are Xers. This group tends to be high earners and generally fall into the wellness seeker category, looking to find themselves on holiday and to take a break from their hectic lives. This category of travelers are ideally placed to take advantage of Arizona's many wellness opportunities, natural landscapes and outdoor excursions.

JET SWEATERS

Jet Sweaters are active adventure seekers looking to explore and participate in fast paced activities. Generally, this group of holidaymakers do not have children and often travel by themselves and go away solely for their own athletic pursuits. Since these travelers are less affected by family, school and work restrictions, these types of traveler are perfect to target for low and shoulder seasons during the year. This group align with Arizona's outdoor adventure pillar and are likely to enjoy the many active pursuits the state has to offer.

UK TRAVEL TRENDS

Holiday Types Are Changing

Travel companies have seen a change in the types of holidays that consumers are choosing to purchase. Consumers are preparing to spend more on their holidays in 2018 and are getting wise to the competition for popular destinations. Wellness based holidays, multi-stop holidays and multigenerational holiday types are all performing very well.

The Rise of Ubiquitous Booking

The most successful travel companies have always focused on the transaction, and the ability to book is becoming even more ubiquitous, central, flexible and mobile. Recent research by lastminute.com has revealed that in the UK 19% of travelers use their cell phone to book getaway breaks on the day of travel. Long-haul destinations need to identify with this booking trend which demands more captivating content to help convert last minute bookings.

Digital News

At the start of 2015, 39 of the top 50 digital news websites had more traffic to their sites and associated applications coming from mobile devices than from desktop computers, according to Pew Research Center's analysis of comScore data. Those who use only mobile devices to consume newspaper digital content increased 53% in March 2015 from the same month a year ago, according to a report from NAA.

Business Travelers Adopt New Rules for Travel – Emergence of Bleisure

The merging of business and leisure has created a new breed of sky warriors whose expectations and behaviours have shifted towards a culture that combines productivity, opportunity, and new experiences. Those travelling to Arizona or neighboring States such as Nevada business can be introduced to Arizona's rich array of experiences.

Interest in Experientialism

People are now valuing personal, more authentic experiences, over accruing material objects. The largest trend, by far, in 2017 across the UK travel sphere was "Experiential" travel – a shift towards "doing" instead of just "seeing". Just as "experiential" travel was key in 2017, "local" travel is the focus point for 2018. The UK market will be looking for authentic experiences. This desire for local, authentic travel experiences is driven largely by the tech and social media savvy millennial market who place a strong focus on creating fully independent and custom-made itineraries (which can then be shared on their social media channels) as opposed to set itineraries of the popular attractions and most visited places of interest. For social media purposes, these travelers want to feel and seem as though they've uncovered a hidden gem or 'lived like a local' – the opposite to mass tourism.

Skill- Based Holidays

Another product of the modern time-poor society, people are combining the opportunity to learn a new skill with travel. Most UK travelers will fit somewhere between the traditional and experiential/local way of travelling which combines a list of classic attractions as well as activities such as a local cooking class. This way, they can return home feeling they've used their time away affectively and can re-create their holiday memories at home. For Arizona, the likes of cowboy ranch experiences, guided hikes or climbs, cooking classes or yoga classes all fit this demand.

Growth in Technology

Research by World Travel Market and Euromonitor International identified more than a third of all travel bookings made online will be done via a mobile device by 2018. There has also been a rise in interest for brands who offer rewards by social media e.g. hotel chains are starting to offer reward schemes for people who share images and reviews of their hotel rooms on social media. Additionally, wearable technology, such as smart watches, will become more important in travel, from finding and booking trips, to digital hotel keys and boarding passes being available on phones and reducing paper to ease the load for travellers.

Responsible Tourism

70% of Europeans believe that travel companies should ensure their holidays help the local people and economy. (ABTA Travel Trends Report 2018).

Ageing Demographic

There is an increase in 60 plus retired travelers with disposable incomes. In the UK, the chance to pocket a tax-free 25% lump sum from your retirement fund when you stop working is one of the most popular perks of saving into a pension, and many take advantage of this in order to travel. The early retiree is typically an affluent baby boomer, with surplus income and a desire to tour the world.

Value for Money

Feedback from airlines, tour operators and hotels is that "it is not all about price" - customers are looking for added value. Travelers do not expect heavily discounted prices but really appreciate additional extras in their holiday package.

Source: ABTA 2018 Travel Trends Report